



Finning Tractor & Equipment Company Limited

FRONT COVER

New SY235 Running Skyline Yarmer enables loggers to meet latest ecological standards and harvest otherwise inaccessible timber.



High volume lumber shipments created strong sales for re-designed Caterpillar 16,000 to 30,000-pound lift trucks manufactured in Dallas, Oregon.

HEAD OFFICE 555 GREAT NORTHERN WAY, VANCOUVER, B.C. V5T 1E2 • PHONE (604) 872-4444 • TELEX 04 508717 • CABLE ADDRESS "FINTRAC"

April 22, 1981

To Our Shareholders:

Enclosed you will find a Notice, Information Circular and Proxy related to a Meeting of the Shareholders to consider a proposed capital alteration. This letter summarizes our objectives.

We are all aware of high interest costs on short and long term borrowings. These high interest rates have persisted since the latter part of 1979 and there seems to be no significant relief in sight in the near future.

With this background of continuing high cost of debt, your Board of Directors has decided to consider an equity-related financing. We propose to issue subordinated unsecured debentures convertible into Class B non-voting common shares. These convertible debentures will have a significantly lower interest rate when compared to the non-convertible debentures.

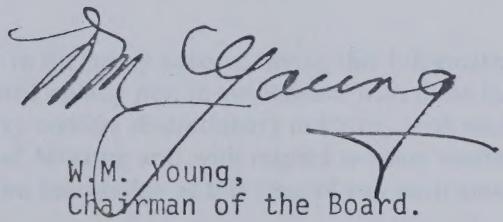
Our purpose in altering the capital structure of the Company is to create a new class of non-voting common shares. When the debentures are converted into Class B non-voting common shares, the relative voting rights of the present shareholders will not be affected. Thereby we can preserve the continuity of the present ownership structure and also ensure continuance of management philosophies which have been successful.

It is our intent to treat shareholders who will own Class B shares in exactly the same manner as the shareholders with Class A shares. The Class B non-voting shares will participate equally with respect to dividends and the shareholders will be sent all the information relating to the Company's operations. We would very much like all the shareholders to attend the Annual General Meetings and for that reason we propose to send the notices of all General Meetings to all the shareholders whether they own Class A or Class B shares.

You will notice from the enclosed Information Circular that Class B shares are convertible into Class A shares if there is an offer to purchase all Class A shares which the present controlling shareholders wish to accept. The intent is to ensure that the holders of Class B shares will have the opportunity to receive any takeover bid premium.

We sincerely believe that this capital alteration will give us a great deal of financial flexibility for all future equity-related financings and wholeheartedly recommend your approval. We hope you will attend this Meeting so that we may answer any questions you may have.

Yours very truly,



W.M. Young,
Chairman of the Board.

WMY:ceh

FINNING TRACTOR & EQUIPMENT COMPANY LIMITED



HEAD OFFICE: 555 GREAT NORTHERN WAY, VANCOUVER, B.C. V5T 1E2 • PHONE (604) 872-4444 • TELEX 04-508717 • CABLE ADDRESS "FINTRAC"

INFORMATION CIRCULAR

SOLICITATION OF PROXIES

This Information Circular is furnished in connection with the solicitation by the management of Finning Tractor & Equipment Company Limited (the "Company") of proxies for use at the Extraordinary General Meeting of shareholders of the Company (the "Meeting") to be held at the time and place and for the purpose set forth in the accompanying Notice of Meeting. The cost of solicitation will be borne by the Company.

APPOINTMENT AND REVOCATION OF PROXIES

A shareholder has the right to appoint a person, who need not be a shareholder, to represent him at the Meeting other than the persons designated in the enclosed proxy, who are directors of the Company. A shareholder wishing to exercise this right may strike out the names now designated and insert the name of the desired person in the blank space provided.

A shareholder executing the enclosed proxy may revoke it at any time before the Meeting.

VOTING BY PROXIES

If the instructions given by a shareholder in the proxy accompanying this Information Circular are certain, the shares represented by the proxy will be voted on any poll in accordance with those instructions, unless there is a specification to withhold voting. The proxy confers discretionary authority with respect to amendments or variations to matters identified in the Notice of Meeting and with respect to other matters which may properly come before the Meeting. The Company has no knowledge at this time of any such amendments, variations or other matters.

VALIDITY AND DEPOSIT OF PROXIES

The proxy will not be valid unless completed and deposited in accordance with the instructions set out in the proxy.

VOTING SHARES

The Company is authorized to issue 40,000,000 common shares without par value (the "Common Shares") of which 15,885,600 Common Shares are outstanding and each share is entitled to one vote.

Shareholders of record at the close of business on April 22, 1981 will be entitled to vote at the Meeting, in person or by proxy.

To the knowledge of the directors and senior officers of the Company, no person or company beneficially owns directly or indirectly equity shares carrying more than 10% of the voting rights attached to all equity shares of the Company except:

Name	Number of Common Shares	Percentage of Common Shares
Bartrac Holdings Ltd.	5,577,800	35.1%
Tractor Holdings Ltd.	5,577,800	35.1%

Of the Common Shares owned beneficially by Bartrac Holdings Ltd. and Tractor Holdings Ltd., 3,154,096 owned by each are the subject of a Voting Trust Agreement between W. Maurice Young, a director and Chairman of the Board of Directors of the Company, Canada Permanent Trust Company, Bartrac Holdings Ltd. and Tractor Holdings Ltd., under the terms of which Mr. Young is Voting Trustee. The voting shares of Bartrac Holdings Ltd. and of Tractor Holdings Ltd. are owned equally by Joanne Earlene Barker and Mary Margaret Young. Joanne Earlene Barker is the wife of William T. Barker, a director of the Company. Mary Margaret Young is the wife of W. Maurice Young.

PARTICULARS OF MATTERS TO BE ACTED UPON

Purpose of Meeting

The Extraordinary General Meeting has been called for the purpose of passing a special resolution altering the capital of the Company to change one-half of the issued and unissued Common Shares to class A voting shares; to change the balance of the Common Shares to class B non-voting shares; to increase the number of authorized shares; and to make certain consequential amendments.

Characteristics of Shares

The class A voting and the class B non-voting shares will rank equally in all respects except that:

- (a) The class B non-voting shares will not have the right to vote except in connection with certain matters specified by law or to be provided for in the Articles of the Company. These matters include a sale or other disposition of all or substantially all of the assets of the Company, the liquidation of the Company, the amalgamation of the Company and any alteration in the capital of the Company which will prejudice or interfere with the rights and restrictions attached to the class B non-voting shares.
- (b) The class A voting shares will be convertible into class B non-voting shares at any time at the election of a holder.
- (c) The class B non-voting shares will be convertible into class A voting shares under certain circumstances, including if there is an offer to purchase all class A voting shares which the present controlling shareholders wish to accept.

The class A voting shares and the class B non-voting shares are entitled to participate equally with respect to dividends and with respect to the return of capital on a winding up or liquidation of the Company.

Reasons for Capital Alteration

It is the opinion of management of the Company that the proposed capital alteration will provide flexibility in financing the Company. In particular, the Company expects to file within the next few days a preliminary prospectus relating to an issue of unsecured debentures convertible into class B non-voting shares. These debentures, in common with other similar convertible securities, should enjoy a favourable interest rate and significantly reduce the Company's cost of funds. By creating a class of non-voting securities, a dilution in the voting rights of the present shareholders will be avoided.

Effect of Capital Alteration

The effect of the proposed capital alteration is that for each two Common Shares now held, a shareholder will receive one class A voting share and one class B non-voting share. For example, a shareholder who held 100 Common Shares on December 31, 1980, now has 200 Common Shares as a result of the stock split effected at the Annual General Meeting held on March 31, 1981. As a result of the capital alteration now proposed, those 200 shares will be changed into 100 class A voting shares and 100 class B non-voting shares. The equity ownership of all shareholders and the relative voting position of each shareholder will remain unchanged.

Procedure

Each common shareholder will shortly receive an additional share certificate representing Common Shares as a result of the stock split effected at the Annual General Meeting. After the proposed capital alteration has become effective, the Company will advise each shareholder and request that he forward his certificates for Common Shares to the transfer agent, who will then mail to him new certificates for class A voting and class B

non-voting shares. It is expected that trading in the Common Shares on the Toronto and Vancouver Stock Exchanges will cease and trading in the class A voting and class B non-voting shares will commence on or about May 20, 1980.

CANADIAN FEDERAL INCOME TAX INFORMATION

The following comments are confined to the application of the Income Tax Act (Canada) (the "Act") as currently in force to shareholders whose Common Shares are capital property for the purposes of the Act. Generally, a share will be capital property unless a disposition of the share by the holder would give rise to income from carrying on a business of trading and dealing in shares or from an adventure in the nature of trade. These comments are intended to summarize the Canadian federal income tax consequences and are not intended to be a substitute for the advice of a shareholder's own tax advisors.

In general, the federal income tax consequences to a shareholder of the Company will be as follows:

1. Holders of Common Shares will not realize a capital gain or a capital loss for the purposes of the Act as a result of the capital reorganization.
2. The aggregate cost for purposes of the Act of class A voting shares and class B non-voting shares receivable by a holder of Common Shares as a result of the reorganization will be equal to the aggregate of the adjusted cost bases, immediately before the reorganization, of the Common Shares held by him. The Act provides that the apportionment of such aggregate cost as between class A voting shares and class B non-voting shares receivable shall be calculated on the basis of the ratio of the fair market value of each such class A voting share and class B non-voting share immediately after the reorganization to their total fair market value immediately after the reorganization.
3. For the purpose of determining the adjusted cost bases of Common Shares acquired before 1972, those holders that follow the tax-free zone method will as a result of the reorganization be deemed to have a cost per such share equal to the amount that is neither the greatest nor the least of (a) actual cost before 1972, (b) fair market value on December 22, 1971 ("Valuation Day") after accounting for stock splits, and (c) fair market value immediately before the reorganization of such share. For those holders that have elected to follow the Valuation Day method of determining cost, the cost of Common Shares acquired before 1972 by such holders will, for the purpose of determining the adjusted cost bases of such shares, be equal to the fair market value of such shares on Valuation Day after taking into account stock splits.
4. A holder of class A voting shares who subsequent to the reorganization and in accordance with the rights and restrictions attached thereto converts any of his class A voting shares into class B non-voting shares or converts any of his class B non-voting shares into class A voting shares will not realize a capital gain or capital loss for purposes of the Act as a result of such conversion.

The foregoing relates only to federal income tax consequences and only Canadian tax advisors have been consulted in respect of the reorganization. Accordingly, a shareholder who is concerned as to his tax liability under provincial law (particularly if resident in the Province of Quebec) or who may become liable to tax as a result of these transactions under a taxing statute of a jurisdiction outside of Canada should consult tax counsel in such jurisdiction for further advice.

Because income tax considerations may be important in assessing the effects of the proposed transactions, and because the law in this area is complex, it is recommended that all shareholders consult their advisors.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director or senior officer of the Company, nor any person or company who to the knowledge of the directors or senior officers of the Company beneficially owns directly or indirectly more than 10% of the voting shares of the Company or any associate or affiliate of such person or company, has any material interest, direct or indirect, in any transactions since the commencement of the Company's last completed fiscal year or any proposed transaction which has materially affected or will materially affect the Company or any of its subsidiaries.

DATED as of the 22nd day of April, 1981.

SCHEDULE TO INFORMATION CIRCULAR

TEXT OF SPECIAL RESOLUTION ALTERING THE CAPITAL OF THE COMPANY

BE IT RESOLVED as a special resolution that:

1. 12,057,200 unissued and 7,942,800 issued common shares without par value in the capital of the Company be named and designated "class A voting shares";
2. The remaining 12,057,200 unissued and 7,942,800 issued common shares without par value in the capital of the Company be named and designated "class B non-voting shares";
3. The class A voting shares and the class B non-voting shares shall have attached thereto the special rights and restrictions set forth in Part 24 of the Articles of the Company;
4. The class A voting shares and the class B non-voting shares shall be apportioned among the registered holders of common shares of the Company so that each registered holder of common shares shall become the holder of one class A voting share and one class B non-voting share for each two common shares held by him, and if the number of common shares held by any such holder shall not be evenly divisible by two, the additional share to be apportioned to such holder shall be a class A voting share;
5. The authorized capital of the Company be increased by creating an additional 20,000,000 class A voting shares and an additional 20,000,000 class B non-voting shares so that the authorized capital shall be as set out in paragraph 6 of this resolution;
6. Clause 2 of the memorandum of the Company be amended to read:
"The authorized capital of the Company consists of 85,000,000 shares divided into:
(a) 40,000,000 class A voting shares without par value having attached thereto the special rights and restrictions set forth in Part 24 of the Articles of the Company;
(b) 40,000,000 class B non-voting shares without par value having attached thereto the special rights and restrictions set forth in Part 24 of the Articles of the Company; and
(c) 5,000,000 preferred shares without par value having attached thereto the special rights and restrictions set forth in Part 22 of the Articles of the Company of which 600,000 preferred shares without par value are designated as 'Cumulative Redeemable Convertible Preferred Shares, Series A' having attached thereto the special rights and restrictions set forth in Part 23 of the Articles of the Company."

7. The Articles of the Company be amended by the addition of the following as Part 24:

"PART 24 — RIGHTS AND RESTRICTIONS ATTACHED TO CLASS A VOTING SHARES AND CLASS B NON-VOTING SHARES

24.1 Except as otherwise provided in this Article 24.1, the registered holders of the class B non-voting shares shall not, as such, be entitled to receive notice of or to attend or to vote at any meetings of members of the Company. If the Company proposes to (i) sell, lease or transfer or otherwise dispose of its properties and assets substantially as an entirety other than to one or more wholly owned subsidiaries of the Company, or (ii) voluntarily liquidate, dissolve or wind-up or distribute its assets among its members for the purpose of winding-up its affairs, the registered holders of class B non-voting shares shall be entitled to receive notice of any meeting of members of the Company at which such action is to be considered, and shall be entitled to attend such meeting and vote thereat on any resolution adopting such action on the basis of one vote for each class B non-voting share.

24.2 Each holder of class A voting shares shall be entitled at his option at any time and from time to time (subject as hereinafter provided) to have all or any part of the class A voting shares held by him converted into class B non-voting shares as the same shall be constituted at the time of such conversion upon the basis of one class B non-voting share for each one class A voting share in respect of which the conversion right is exercised.

The conversion right provided for in this Article 24.2 may be exercised by notice in writing given to the transfer agent for the class B non-voting shares of the Company accompanied by the certificate or

certificates representing class A voting shares in respect of which the holder thereof desires to exercise such right of conversion and such notice shall be executed by the person registered on the books of the Company as the holder of the class A voting shares in respect of which such right is being exercised or by his duly authorized attorney and shall specify the number of class A voting shares which the holder desires to have converted. Upon receipt of such notice the Company shall issue certificates representing class B non-voting shares upon the basis above prescribed and in accordance with the provisions hereof to the registered holder of the class A voting shares represented by the certificate accompanying such notice. If less than all the class A voting shares represented by any certificate are to be converted, the holder shall be entitled to receive a new certificate for the class A voting shares representing the shares comprised in the original certificate which are not to be converted.

24.3 If an Offer is made, then subject to Article 24.4, each holder of class B non-voting shares shall be entitled at any time and from time to time thereafter to have all or any part of the class B non-voting shares held by him converted into class A voting shares as the same shall be constituted at the time of such conversion on the basis of one class A voting share for each class B non-voting share in respect of which the conversion is exercised.

The right provided for in this Article 24.3 may be exercised by delivery to the transfer agent for the class A voting shares of the certificate or certificates representing the class B non-voting shares which the registered holder thereof desires to have converted, with the direction to convert on the reverse of such share certificate or a form to like effect, duly completed and executed by the registered holder or his duly authorized attorney. If less than all the class B non-voting shares are to be converted, the registered holder shall be entitled to receive a new certificate for the class B non-voting shares representing the shares comprised in the original certificate and not converted.

24.4 The right provided for in Article 24.3 shall not come into effect if:

- (a) there shall be delivered to the transfer agent for the class A voting shares and to the Secretary of the Company not later than seven days prior to the Expiry Date, a certificate signed by or on behalf of one or more members of the Majority Group to the effect that a member or members of the Majority Group hold in the aggregate not less than 60% of the class A voting shares and that such member or members will not accept the Offer or will accept it only to the extent that he or they will continue to hold 60% or more of the class A voting shares; or
- (b) the Secretary of the Company shall deliver to the transfer agent for the class A voting shares not later than seven days prior to the Expiry Date, a certified copy of a resolution of the Board of Directors determining that the Offer is not bona fide but is made primarily for the purpose of causing the conversion right provided for in Article 24.3 to come into effect and not for the purpose of acquiring class A voting shares and stating the basis for such determination; or
- (c) at the time the Offer is made, an offer on the same terms and conditions is made to the holders of class B non-voting shares; or
- (d) the Offer is not completed in accordance with its terms as they may be modified in compliance with any applicable legislation.

24.5 If the right provided for in Article 24.3 becomes effective, the Company shall, forthwith after the seventh day preceding the Expiry Date, forward to each registered holder of class B non-voting shares, a notice advising each holder of class B non-voting shares of his rights hereunder.

24.6 If there shall be an Offer, the Company shall make all necessary arrangements with the transfer agent for the class A voting shares (in this Article 24.6 called the "Transfer Agent") for the tender of a certificate representing class A voting shares into which class B non-voting shares shall be convertible, and for the payment or transfer to the persons entitled thereto of all consideration payable by the offeror pursuant to the Offer and of share certificates representing class A voting shares to the extent that they have not been taken up and paid for pursuant to a completed Offer. If the Offer is not completed in accordance with its terms as modified in compliance with any applicable legislation, the right provided in Article 24.3 shall not be effective and the Transfer Agent shall deliver to the persons entitled thereto new certificates representing the number of class B non-voting shares delivered to the Transfer Agent pursuant to Article 24.3.

24.7 In this Part 24, the following terms shall have the following meanings:

- (a) "Offer" shall mean an offer to purchase class A voting shares which is made to all or substantially all holders of class A voting shares;
- (b) "Offer Date" shall mean the date on which the Offer is made;
- (c) "Expiry Date" shall mean the last date upon which holders of class A voting shares may accept the Offer;
- (d) "Majority Group" shall mean:
 - (i) William Maurice Young, Mary Margaret Young, William Thorvald Barker, Joanne Earlene Barker, their children, grandchildren and other descendants (including children, grandchildren and other descendants who are adopted);
 - (ii) companies of which a majority of the shares then having voting rights are owned, directly or indirectly by or for the benefit of, persons described in subclause (i);
 - (iii) trusts under which the only persons having a capital interest in the class A voting shares are persons described in subclause (i).

24.8 Neither the class A voting shares nor the class B non-voting shares shall be subdivided or consolidated unless contemporaneously therewith the other class of shares is subdivided or consolidated in the same proportion.

24.9 Save as aforesaid, each class A voting share and each class B non-voting share shall have the same rights and restrictions and be the same in all respects, and in particular:

- (a) the class A voting and the class B non-voting shares shall participate equally as to dividends, and all dividends which the Board of Directors may determine to declare and pay in any fiscal year of the Company shall be declared and paid in equal amounts per share and at the same time on all the class A voting and the class B non-voting shares at the time outstanding without preference or distinction;
- (b) in the event of the liquidation, dissolution or winding up of the Company or any other distribution of assets of the Company among its members for the purpose of winding up its affairs, all the property and assets of the Company available for distribution to the holders of the class A voting and the class B non-voting shares shall be paid or distributed equally, share for share, to holders of the class A voting and the class B non-voting shares respectively, without preference or distinction."

8. Part 23 of the Articles of the Company be amended to provide that the holders of Cumulative Redeemable Convertible Preferred Shares, Series A shall have the right to convert such shares into class A voting shares rather than into common shares as presently set out therein and to provide that the payment of dividends to the holders of Cumulative Redeemable Convertible Preferred Shares, Series A shall be in priority to payment of dividends upon the class A voting shares and class B non-voting shares rather than upon the common shares as presently set out therein, so that Part 23 of the Articles of the Company shall read as follows:

"PART 23 — SÉRIES A PREFERRED SHARES WITHOUT PAR VALUE

The first series of preferred shares without par value created pursuant to Article 22 of the Articles of the Company are designated as Cumulative Redeemable Convertible Preferred Shares, Series A (the "Series A preferred shares") and in addition to the special rights and restrictions attached thereto as a class by Article 22, shall have attached thereto the following special rights and restrictions:

23.1 *Dividends*

The holders of the Series A preferred shares shall be entitled to receive cumulative preferential cash dividends at a rate calculated daily equal to 50% of the prime commercial rate of the Toronto-Dominion Bank plus ½% per annum (the "Dividend Rate"), payable quarterly on the last days of March, June, September and December in each year on the amount paid up thereon. The prime commercial rate of the Toronto-Dominion Bank shall mean that rate of interest payable from time to time on Canadian fund loans made by the Toronto-Dominion Bank to corporate borrowers of the highest credit rating designated as such from time to time by the Toronto-Dominion Bank, Main Branch at Vancouver, British Columbia. No

dividends shall be paid or set apart for payment upon the Equity Shares unless all cumulative preferential dividends on the Series A preferred shares have been declared and paid or set aside for the current quarterly period and for all previous quarterly periods.

23.2 *Redemption*

The Company may upon giving notice as hereinafter provided, redeem at any time the whole or from time to time any part of the then outstanding Series A preferred shares on payment for each share to be redeemed of an amount (the "Redemption Price") equal to 100% of the amount paid up on such share, together with an amount equal to all accrued and unpaid dividends, whether declared or not, which dividends shall be calculated as if such dividends were accruing from day to day. In case a part only of the then outstanding Series A preferred shares is at any time to be redeemed pursuant to this Article 23.2, the shares so to be redeemed shall be selected by the directors and need not be pro rata or selected by lot. The directors may redeem all or a portion of the Series A preferred shares held by one or more persons to the entire or partial exclusion of any other person or persons.

23.3 *Notice of Redemption and Waiver*

23.3.1 *Notice of Redemption*

In case of any redemption of any Series A preferred shares, the Company shall at least 16 days before the date specified for redemption mail or deliver to each registered holder of Series A preferred shares to be redeemed, a notice in writing of the intention of the Company to redeem such Series A preferred shares. However, except as provided in the next following sentence, no notice of redemption of any Series A preferred shares given after two years after the Date of Issue of such preferred shares shall have the effect of reducing the time within which a holder of Series A preferred shares may exercise his right to convert Series A preferred shares as herein provided. Notwithstanding any other provision hereof, the Company may at any time redeem all, but not less than all, the outstanding Series A preferred shares by not less than 90 days prior notice to each registered holder thereof, such notice to be given in the manner herein provided. Any notice of redemption shall be mailed in a prepaid envelope or delivered to each such holder at his address as it appears on the books of the Company or in the event of the address of any such holder not so appearing, then to the last known address of such holder, provided however, that accidental failure to give any such notice to one or more such holders shall not affect the validity of such redemption. Such notice shall set out the Redemption Price and the date on which redemption is to take place and if part only of the Series A preferred shares held by the person to whom it is addressed is to be redeemed, the number thereof so to be redeemed. Unless the holder shall have exercised the conversion privilege set forth in Article 23.4 on or after the date so specified for redemption the Company shall pay or cause to be paid to or to the order of each registered holder of the Series A preferred shares to be redeemed, the Redemption Price on presentation and surrender, at the registered office of the Company or any other place designated in such notice, of the certificate for the Series A preferred shares called for redemption. Such payment may be made by cheques payable at par at any branch in Canada of any Canadian chartered bank. Such Series A preferred shares shall thereupon be and be deemed to be redeemed and shall be cancelled. If a part only of the shares represented by any certificate is redeemed, a new certificate for the balance shall be issued at the expense of the Company. From and after the date specified in any such notice, the Series A preferred shares called for redemption shall cease to be entitled to dividends and the holders thereof shall not be entitled to exercise any of the rights of holders in respect thereof (except as herein otherwise specifically provided) unless payment of the Redemption Price shall not be made upon presentation of certificates in accordance with the foregoing provisions, in which case the rights of the holders shall remain unaffected. The Company shall have the right at any time after the mailing or delivery of notice of its intention to redeem any Series A preferred shares to deposit the Redemption Price for such shares, other than shares represented by certificates theretofore surrendered by holders in connection with such redemption, into a special account in any chartered bank or trust company in Canada named in such notice. The Redemption Price so deposited shall be paid without interest to or to the order of the respective holders of such Series A preferred shares called for redemption upon presentation and surrender to such bank or trust company of the certificates representing the same. Upon such deposit of the Redemption Price or upon the date specified for redemp-

tion in such notice, whichever is the later, the Series A preferred shares in respect of which such deposit shall have been made, shall be deemed to be redeemed, and shall be cancelled and the rights of the holders thereof after such deposit shall be limited to receiving without interest their proportionate part of the total Redemption Price so deposited against presentation and surrender of the certificates held by them respectively. Any interest allowed on any such deposit shall belong to the Company. If the Company deposits the Redemption Price as contemplated hereby and if any holder of any Series A preferred shares shall fail to claim his portion of the Redemption Price prior to the expiration of three years following the date on which redemption was to take place, then the unclaimed portion of the Redemption Price shall be returned to the Company and the claim of any such holder for such portion of the Redemption Price shall thereupon be extinguished.

23.3.2 Waiver of Notice of Redemption

Notwithstanding the provisions of paragraph 23.3.1 the holders of the Series A preferred shares may waive notice of any redemption by instrument or instruments in writing.

23.4 Conversion Privilege

23.4.1 For the purposes of this Part 23:

“Class A Shares” shall mean the class A voting shares without par value of the Company as those shares were constituted on the date on which the special resolution creating such shares shall have become effective or shares of any other class or any other security resulting from any common share reorganization as defined in paragraph 23.4.4;

“Close of Business” shall mean the normal closing hour of the Company or such other office at which certificates for Series A preferred shares are surrendered for conversion;

“Common Shares” shall mean the common shares without par value of the Company as those shares were constituted on December 19, 1980 or shares of any other class or any other security resulting from any common share reorganization as defined in paragraph 23.4.4;

“Conversion Factor” for any Series A preferred shares shall mean the figure which results when the issue price for such Series A preferred shares is divided by the Conversion Price applicable thereto, all as adjusted from time to time in accordance with paragraph 23.4.4;

“Conversion Price” for any Series A preferred shares shall mean 115% of the Current Market Price applicable to such Series A preferred shares;

“Current Market Price” of the Common Shares as at any Issue Date or the Class A Shares as at any Issue Date shall mean the average of the prices per share at which the last board lot of the Common Shares or the Class A Shares, as the case may be, traded on The Toronto Stock Exchange (or, if the Common Shares or the Class A Shares are not listed on The Toronto Stock Exchange, on such stock exchange on which such shares are listed as may be selected for that purpose by the Board of Directors) on each of the last five trading days on which board lots traded before such Issue Date;

“Equity Shares” shall mean collectively the Common Shares, the Class A Shares and the class B non-voting shares without par value of the Company;

“Issue Date” or “Date of Issue” shall mean with respect to any Series A preferred shares, the date of issue as specified by the Executive Committee of the Board of Directors;

23.4.2 Right of Conversion

A holder of Series A preferred shares shall have the right, exercisable at any time after, but not before the date two years after the Date of Issue of such Series A preferred shares and up to the Close of Business on the date ten years after the Date of Issue of such Series A preferred shares, to convert such Series A preferred shares into Class A Shares on the basis set forth in paragraph 23.4.3.

23.4.3 Number of Class A Shares Issuable on Conversion

The number of Class A Shares issuable on conversion of Series A preferred shares shall be equal to the number of Series A preferred shares to be converted multiplied by the Conversion Factor.

23.4.4 Adjustment of Conversion Factor

The Conversion Factor shall be subject to adjustment from time to time as follows:

- (a) if the Company shall subdivide any or all of the Equity Shares into a greater number of shares; or if the Company shall issue in exchange for any or all of the Equity Shares a greater number of Equity Shares; or if the Company shall reduce the number of any or all of the Equity Shares by combination or consolidation of shares; or if the Company shall issue in exchange for the outstanding Equity Shares a smaller number of Equity Shares (any of which together with any reclassification, change or other fact referred to in paragraph 23.4.4(b) is hereinafter called a "common share reorganization") then in each case from and after the effective date for such common share reorganization the Conversion Factor shall be adjusted by multiplying the Conversion Factor by a fraction the numerator of which is the number of Equity Shares resulting from such common share reorganization and the denominator of which is the number of Equity Shares outstanding just prior to such common share reorganization; and
- (b) if any reclassification or any change shall be made in the outstanding Equity Shares other than a common share reorganization referred to in paragraph 23.2.4(a) or if the Company shall issue any additional Equity Shares or securities convertible into or exchangeable for additional Equity Shares or if any other fact occurs which, in the opinion of the Board of Directors of the Company, would not fairly protect the conversion rights of the holders of the Series A preferred shares in accordance with the intent hereof, then the Board of Directors of the Company shall make an adjustment in the Conversion Factor which in their opinion will protect fairly the conversion rights attached to the Series A preferred shares.

23.4.5 Conversion Procedure

The conversion privilege herein provided for may be exercised by notice in writing given to the Company through its Secretary at the address provided for in these Articles accompanied by the certificate or certificates representing Series A preferred shares in respect of which the holder thereof desires to exercise such right of conversion. Such notice shall be signed by such holder or his duly authorized representative and shall specify the number of Series A preferred shares which the holder desires to have converted. The transfer form on the reverse of the certificate in question shall be endorsed by the registered holder of the Series A preferred shares or his duly authorized representative, with signature guaranteed in a manner satisfactory to the Company. If less than all of the Series A preferred shares represented by a certificate or certificates accompanying such notice are to be converted the holder shall be entitled to receive at the expense of the Company, a new certificate representing the Series A preferred shares comprised in the certificate or certificates surrendered as aforesaid which are not to be converted.

23.4.6 Termination of Conversion Right in Certain Events

If any of the events described in this paragraph 23.4.6 shall occur, the right of the holder of Series A preferred shares who has resigned or died or been dismissed, retired, or been given notice of redemption, in the case of any of the events described in subparagraphs (i) to (iv), and the rights of all holders of Series A preferred shares in the case of the event described in subparagraph (v) to convert his or their Series A preferred shares as described in paragraph 23.4.2, shall thereupon terminate with respect to any Series A preferred shares the Date of Issue of which occurred within two years of such event and shall terminate at the expiration of the following periods of time with respect to any other Series A preferred shares. The events and periods of time described in this paragraph 23.4.6 are as follows:

(i) the resignation or dismissal of the holder from employment with the Company other than due to retirement,	15 days from notice of resignation or dismissal
(ii) the retirement of the holder from employment with the Company in accordance with the retirement policy of the Company from time to time in force,	180 days from date of retirement
(iii) the death of the holder,	365 days from date of death

(iv) the giving by the Company of a notice of redemption of all or any portion of the Series A preferred shares,	90 days from notice of redemption
(v) termination of the Company's Employee Share Purchase Plan pursuant to which the Series A preferred shares have been issued.	90 days from date of notice of termination of plan

23.4.7 Certificates Resulting from Conversion

On any conversion of Series A preferred shares, share certificates for Class A Shares resulting therefrom shall be issued in the name of the registered holder of the Series A preferred shares converted or in such name or names as such registered holder may direct in writing, provided that such registered holder shall pay any applicable security transfer or other applicable taxes. Except as hereinafter provided, the right of a holder of Series A preferred shares to convert Series A preferred shares into Class A Shares shall be deemed to have been exercised, and the registered holder of the Series A preferred shares to be converted (or any person or persons in whose name or names any such registered holder of Series A preferred shares shall have directed certificates representing Class A Shares to be issued) shall be deemed to have become a holder of Class A Shares of record of the Company for all purposes on the respective dates of surrender of certificates representing the Series A preferred shares to be converted accompanied by notice in writing as herein provided, notwithstanding any delay in the delivery of certificates representing the Class A Shares into which such Series A preferred shares have been converted.

23.4.8 Avoidance of Fractional Shares

In any case where a fraction of a Class A Share would otherwise be issuable on conversion of one or more Series A preferred shares, the Company shall adjust such fractional interest by the payment by cheque of an amount equal to such fraction multiplied by the Conversion Price applicable to the Series A preferred shares converted.

23.4.9 Postponement of Conversion

In any case where the application of paragraph 23.4.4 results in an adjustment of the Conversion Factor taking effect immediately after the record date for the holders of Equity Shares for the event giving rise to the adjustment, if any Series A preferred shares are converted after that record date and prior to completion of the common share reorganization, the Company may postpone the issuance to the holder of the shares to which he is entitled by reason of the adjustment in the Conversion Factor but such shares shall be issued and delivered to that holder upon completion of the common share reorganization and the Company shall deliver to the holder an appropriate instrument evidencing his right to receive such shares.

23.4.10 Reservation of Class A Shares

The Company shall, so long as any of the Series A preferred shares are outstanding and entitled to the right of conversion herein provided, reserve and at all times hold out of its unissued Class A Shares a sufficient number of unissued Class A Shares to enable all of the Series A preferred shares outstanding to be converted upon the basis and the terms and conditions herein provided.

23.5 Creation and Issuance of Class A Shares

Nothing herein contained shall affect or restrict the right of the Company to increase the number of its Equity Shares in accordance with applicable legislation and to issue such Equity Shares from time to time.

23.6 Notice of Certain Events

If the Company intends to fix a record date of any common share reorganization or for any rights offering or special distribution, the Company shall not less than 21 days prior to such record date notify each registered holder of Series A preferred shares of such intention by written notice, which notice shall set forth the particulars of the proposed event to the extent that such particulars have been determined at the time of giving them notice.

23.7 *Transferability*

The rights granted to the holders of Series A preferred shares are personal in nature and the Series A preferred shares may not be sold, transferred, assigned or dealt with in any way whatsoever except as may be permitted under the Company's Employee Share Purchase Plan and the Board of Directors of the Company may decline to register any transfer of any Series A preferred shares without providing any reasons in that regard.

23.8 *Appointment of Trustee*

The Company may, at its option, appoint a trustee, licensed to do business in British Columbia, to act on behalf of the Company or to assist the Company in performing its obligations under this Part 23.

23.9 *Issue Price*

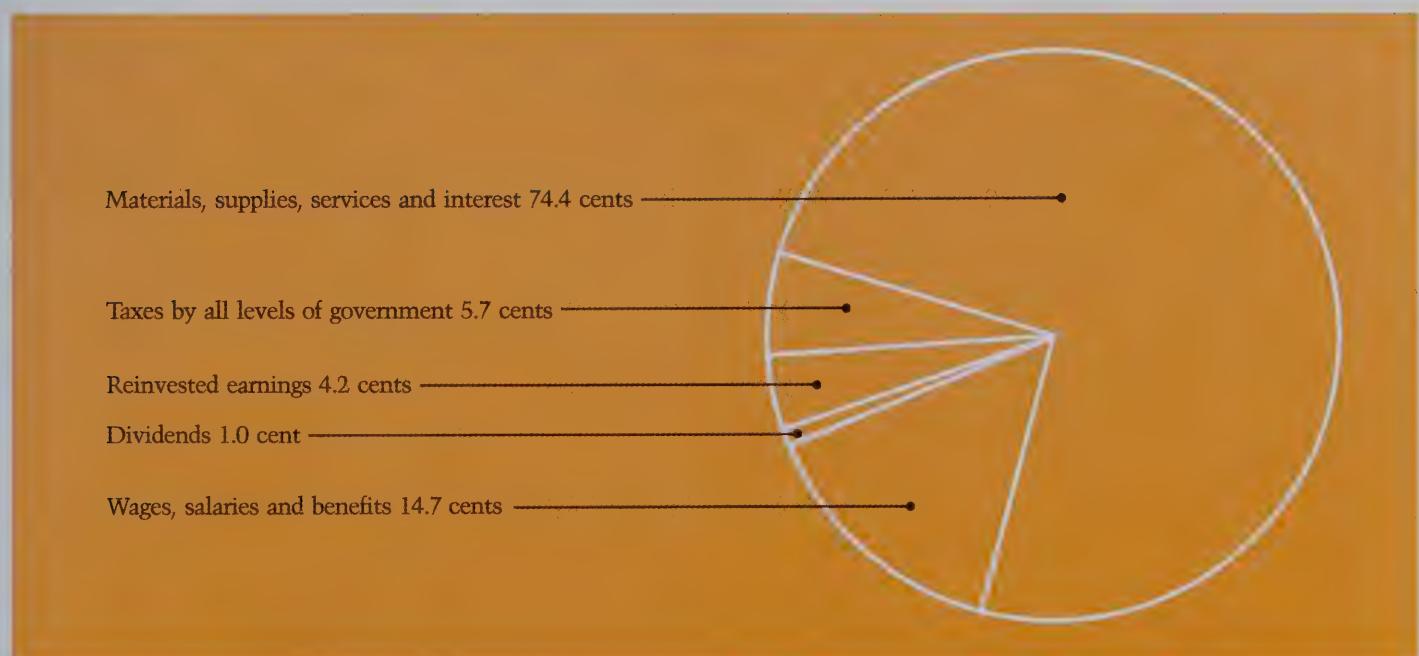
All Series A preferred shares shall be issued by the Company for the issue price of \$10 per share.”

9. Article 22.2 of the Articles of the Company be amended by deleting therefrom the words “common shares” wherever the same shall appear, and by substituting therefor the words “class A voting shares and class B non-voting shares”.

Results in Brief

(dollars in thousands)	1979	1978
Revenue	\$375,417	\$287,933
Income before income taxes	28,322	24,012
Net income	19,459	14,769
Capital expenditures	15,182	11,319
Net income per share	\$ 4.90	\$ 3.72
Income before income taxes as a percentage of revenue	7.5%	8.3%
Net income as a percentage of revenue	5.2%	5.1%
Number of employees at year end	2,066	1,791

Distribution of the Revenue Dollar



To the Shareholders

Revenue for the year 1979 was \$375,417,004 compared with \$287,933,418 in 1978, an increase of 30.4 per cent. Net income increased to \$19,459,468 from \$14,768,675, an increase of 31.8 per cent. This amounted to \$4.90 per share as compared to \$3.72 per share in 1978.

These results are good when we consider a number of factors which went against us; particularly, the highest level of interest rates on our borrowings we have ever experienced and a prolonged strike in the last quarter at Caterpillar's operations in the United States.

In anticipation of labor difficulties at Caterpillar, we built up extremely large inventories of parts and equipment late last summer. This was a very fortunate move in that we were able to weather most of the impact of the interrupted deliveries from Caterpillar. These inventories, although very expensive to carry, did have the effect through fall and early winter of maintaining good service to our customers.

Caterpillar reached an agreement with its Union in December. While the strike will have some impact on product deliveries, it will not be as serious as earlier anticipated.

You will note that income before income taxes declined from 8.3% in 1978 to 7.5%. This is a disturbing trend brought about by the record interest costs which are only partially offset by interest income arising from our customer financing activities. We are alert to the problem and, although no simple solutions are obvious, special effort is being made to better manage our receivables and inventories.

Our effective tax rate declined, due largely to a substantial amount of in-

vestment tax credit generated by the increase in our leases and rentals. The lease portfolio grew from \$52 million in 1978 to \$79 million in 1979.

Capital expenditures continued at a very high rate, totalling \$15.2 million for the year. Although there is still much to be done, we have reached the point where we can be more selective in timing our future outlays to better coordinate our building plans. We have a greater degree of flexibility in assessing our priorities.

With very few exceptions, facilities at our 34 locations are the very finest in quality and the most efficient premises we know how to build.

Our labor negotiations with the International Association of Machinists and Aerospace Workers were very lengthy. Our contract expired on October 14 and we did not reach an agreement until February 12. The two-year contract now in force should take us to the 30th anniversary of certification without a strike; an enviable record, particularly during these difficult times of high inflation and real personal concern for the future. Your management works hard to maintain harmonious relations with all employees and the effort is recognized and reciprocated.

Our principal suppliers, particularly Caterpillar, continue to improve the quality of their products. The growth within their product lines allows us to reach our growth objectives and adaptations of the basic machines give us the opportunity to expand into new markets. Examples of these adaptations are included in the text of this Report.

In May, Airpro expanded into the United States market by acquiring the operations of Philpott-Close in

New Series 81 Finning 235 Roadbuilder is latest model of machine which initiated new technique for building logging road in difficult terrain.



the State of Washington. The branches in both Seattle and Spokane are doing well, up to expectations. It is still too early to make a definitive statement on profitability, but we are very pleased with this acquisition and with the quality of the employees we have taken on staff.

Even with a slight decline in demand for our equipment in the Interior forestry industry, 1980 looks as though it will be a good year, with mining and heavy construction taking up any slack in the overall market. Any decrease in current interest rates would have a beneficial effect on our results. The strength and stability of the Canadian dollar to the United States dollar is no longer a major concern.

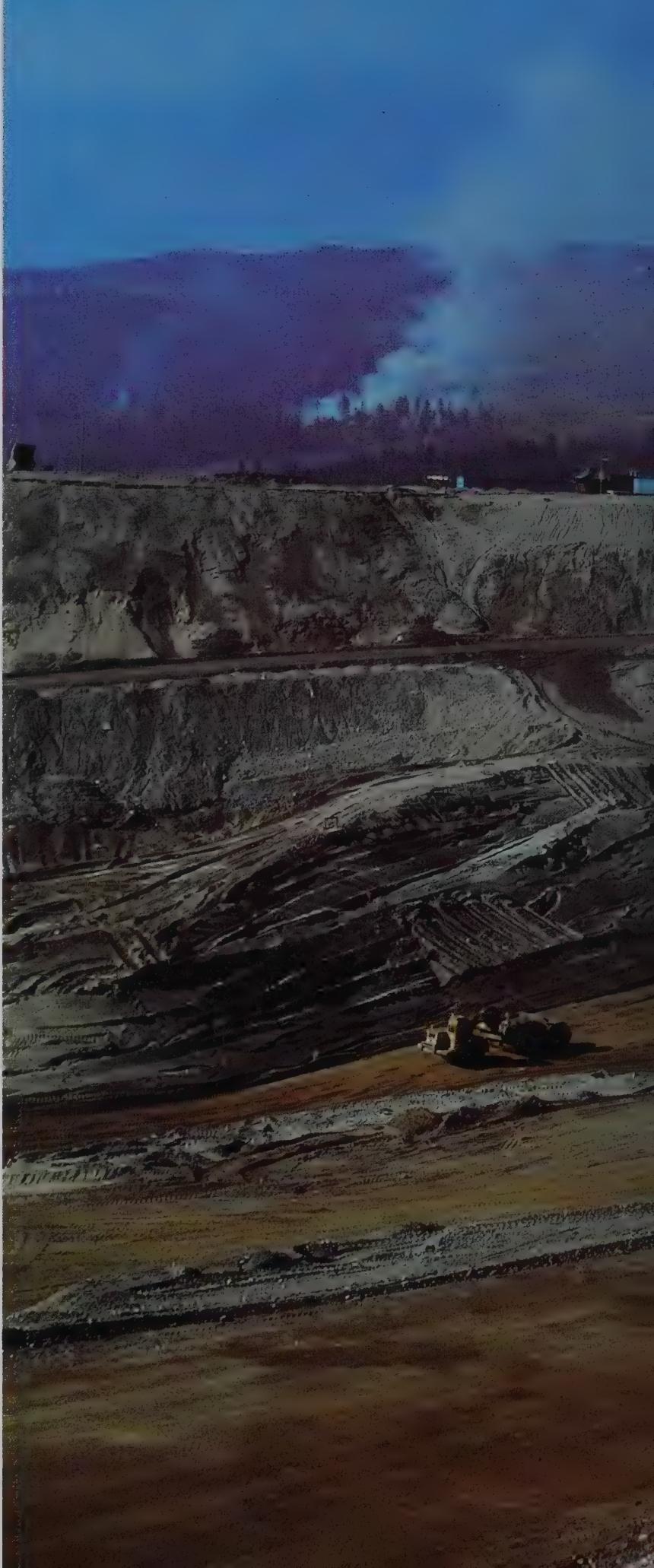
With year-end order backlogs at record levels and the expectations of relatively free supply from our manufacturers, we remain optimistic in our outlook for 1980.



W. M. YOUNG
Chairman of the Board and
Chief Executive Officer



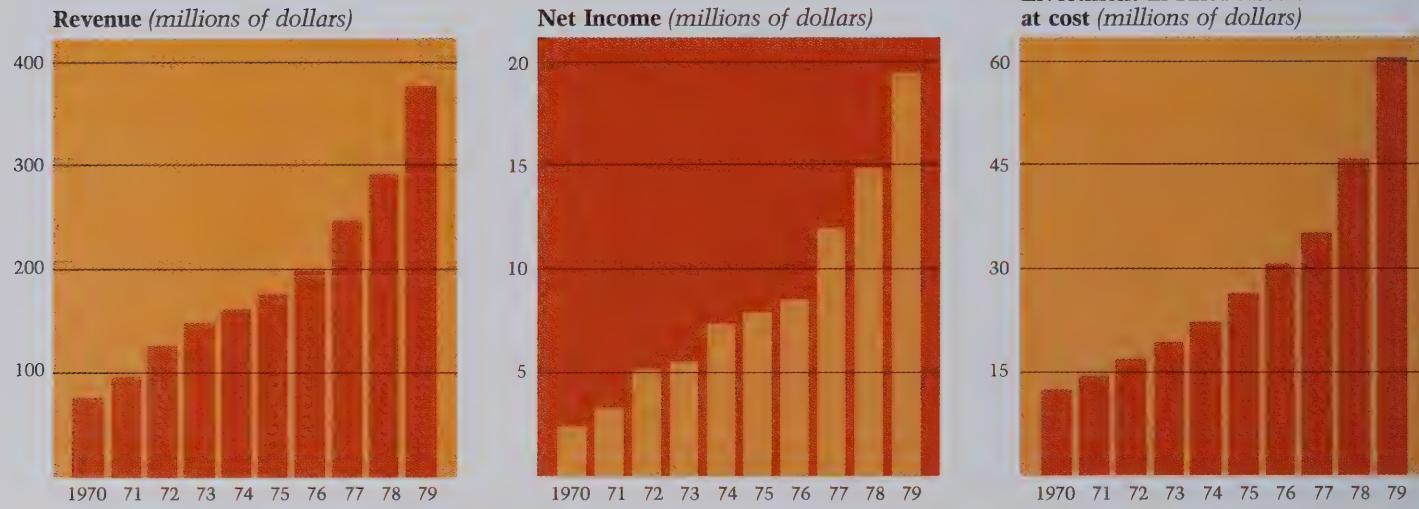
J. D. FRAZEE
President and
Chief Operating Officer





A big fleet of Caterpillar equipment, including a D10, largest track-type tractor made, is continuing work on B.C. Hydro's Revelstoke Dam project.

Highlights of Operations



	Revenue	Income Before Income Taxes	Net Income	Capital Expenditures	Net Income Per Share	Income Before Income Taxes as a Percentage of Revenue	Net Income as a Percentage of Revenue	Number of Employees at Year End
1970	\$ 74,092,000	\$ 4,867,000	\$ 2,384,000	\$ 1,630,000	\$.61	6.6%	3.2%	1,011
1971	91,707,000	6,422,000	3,286,000	1,786,000	.84	7.0%	3.6%	1,180
1972	126,622,000	9,732,000	5,084,000	2,552,000	1.31	7.7%	4.0%	1,373
1973	148,157,000	11,241,000	5,475,000	3,533,000	1.40	7.6%	3.7%	1,577
1974	162,101,000	15,424,000	7,286,000	3,232,000	1.85	9.5%	4.5%	1,542
1975	173,812,000	15,675,000	7,942,000	4,628,000	2.00	9.0%	4.6%	1,467
1976	199,795,000	14,583,000	8,609,000	4,497,000	2.17	7.3%	4.3%	1,664
1977	246,761,000	19,652,000	12,002,000	5,155,000	3.02	8.0%	4.9%	1,694
1978	287,933,000	24,012,000	14,769,000	11,319,000	3.72	8.3%	5.1%	1,791
1979	375,417,000	28,322,000	19,459,000	15,182,000	4.90	7.5%	5.2%	2,066

M32 Tank Drill is one of more than 200 models, pneumatic and hydraulic, now in the field. Tank Drills are manufactured by the Air Products Division.



Consolidated Balance Sheets

as at December 31, 1979 and 1978

Assets

CURRENT ASSETS:	1979	1978
Accounts and notes receivable (Note 6) —		
Accounts receivable (Note 2)	\$ 55,584,343	\$ 42,616,803
Instalment notes, at principal balances, including \$25,503,759 due after one year (\$22,775,504 in 1978)	54,089,792	49,315,241
Inventories (Notes 3 and 6) —		
Equipment	95,114,682	69,075,396
Parts and supplies	36,153,273	33,655,018
Total current assets	\$240,942,090	\$194,662,458
EQUIPMENT LEASED TO CUSTOMERS (Notes 4 and 6)	\$ 78,887,287	\$ 51,827,491
FIXED ASSETS, at cost (Notes 5 and 8):		
Land	\$ 8,028,152	\$ 4,668,872
Buildings and equipment	\$ 52,107,688	\$ 40,894,616
Less accumulated depreciation	19,681,990	16,149,715
Total fixed assets, net	\$ 32,425,698	\$ 24,744,901
Total fixed assets, net	\$ 40,453,850	\$ 29,413,773
	\$360,283,227	\$275,903,722

Approved by the Directors:


J.D. FRAZEE, Director


V.K. SOOD, Director

Finning Tractor & Equipment Company Limited

Liabilities

CURRENT LIABILITIES:

	1979	1978
Bank indebtedness (Note 6)	\$179,458,055	\$108,166,431
Accounts payable and accruals (Note 7)	30,391,020	35,212,147
Income taxes payable (Note 9) —		
Current	299,764	1,440,982
Deferred	12,113,882	10,212,329
Total current liabilities	\$222,262,721	\$155,031,889
LONG-TERM DEBT (Note 8)	\$ 29,400,000	\$ 30,000,000
DEFERRED INCOME TAXES (Note 9)	\$ 17,357,545	\$ 15,494,080
SHAREHOLDERS' EQUITY (Note 10):		
Share capital (Notes 11 and 12)	\$ 9,096,562	\$ 9,096,562
Earnings retained for reinvestment in the business —		
Balance, beginning of year	\$ 66,281,191	\$ 53,498,216
Net income	19,459,468	14,768,675
Dividends paid	(3,574,260)	(1,985,700)
Balance, end of year	\$ 82,166,399	\$ 66,281,191
Total shareholders' equity	\$ 91,262,961	\$ 75,377,753
	\$360,283,227	\$275,903,722

*The accompanying Notes to Consolidated Financial Statements
are an integral part of these statements.*

Consolidated Statements of Income

for the years ended December 31, 1979 and 1978

	1979	1978
REVENUE	<u>\$375,417,004</u>	<u>\$287,933,418</u>
EXPENSES (Notes 13 and 14):		
Cost of sales and selling expenses	\$307,236,286	\$236,432,076
General and administrative	18,519,632	16,683,343
Interest — current	18,450,984	9,830,908
— long-term	2,887,830	975,000
	<u>\$347,094,732</u>	<u>\$263,921,327</u>
INCOME BEFORE INCOME TAXES	\$ 28,322,272	\$ 24,012,091
PROVISION FOR INCOME TAXES (Note 9)	8,862,804	9,243,416
NET INCOME	<u>\$ 19,459,468</u>	<u>\$ 14,768,675</u>
NET INCOME PER SHARE (Note 15)	\$ 4.90	\$ 3.72

*The accompanying Notes to Consolidated Financial Statements
are an integral part of these statements.*

Consolidated Statements of Changes in Financial Position

for the years ended December 31, 1979 and 1978

WORKING CAPITAL PROVIDED BY:

Operations —

	1979	1978
Net income	\$ 19,459,468	\$ 14,768,675
Add charges not requiring the outlay of working capital —		
Depreciation —		
Equipment leased to customers	16,941,680	10,227,584
Fixed assets	3,860,043	2,870,919
Deferred income taxes	1,863,465	3,659,157
Total working capital from operations	\$ 42,124,656	\$ 31,526,335
Sales of fixed assets	282,099	515,470
Long-term debt	—	30,000,000
	<u>\$ 42,406,755</u>	<u>\$ 62,041,805</u>

WORKING CAPITAL APPLIED TO:

Additions —

Equipment leased to customers, net of disposals	\$ 44,001,476	\$ 21,274,759
Fixed assets	15,182,219	11,318,534
Payment of long-term debt	600,000	153,094
Dividends paid	3,574,260	1,985,700
	<u>\$ 63,357,955</u>	<u>\$ 34,732,087</u>
Increase (decrease) in working capital	<u>\$ (20,951,200)</u>	<u>\$ 27,309,718</u>
WORKING CAPITAL, BEGINNING OF YEAR	<u>39,630,569</u>	<u>12,320,851</u>
WORKING CAPITAL, END OF YEAR	<u>\$ 18,679,369</u>	<u>\$ 39,630,569</u>

*The accompanying Notes to Consolidated Financial Statements
are an integral part of these statements.*

Notes to Consolidated Financial Statements

December 31, 1979

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the assets, liabilities and results of the operations of all subsidiary companies and of the partnership, Finning Tractor Co.

The subsidiary companies, which are wholly-owned, are:

Airpro Equipment, Inc.

Airpro Equipment Ltd., also operating as Finning Air Products Division

Finning Computer Services Ltd.

Finning Finance Limited

Finning Tractor (1959) Ltd.

The accounts of Airpro Equipment, Inc., which commenced operations on May 31, 1979, have been translated into Canadian dollars using the exchange rate prevailing at the balance sheet date.

Finning Tractor Co. is a partnership between Finning Tractor & Equipment Company Limited and Finning Tractor (1959) Ltd.

2. ACCOUNTS RECEIVABLE

The Company has invested \$2,500,000 in a Dome Petroleum Limited off-shore drilling program in the Beaufort Sea. This is a "carried interest" arrangement whereby the Company does not have to provide further funds to bring about the completion of the drilling program, regardless of circumstances.

After application of federal income tax recoveries, this investment is recorded at a net cost of \$460,000 and is included in accounts receivable.

3. INVENTORIES

Inventories are stated at the lower of cost and net realizable value. Cost has been determined on a specific item, actual cost basis for equipment and on a first-in, first-out basis for parts and supplies.

4. EQUIPMENT LEASED TO CUSTOMERS

	1979	1978
Cost	\$106,368,896	\$ 70,715,813
Less accumulated depreciation	27,481,609	18,888,322
	<u>\$ 78,887,287</u>	<u>\$ 51,827,491</u>

Depreciation of equipment leased to customers has been provided in the accounts in equal monthly amounts over the terms of the individual leases after giving recognition to the estimated residual value of each unit of equipment at the end of each lease.

Under the terms of the lease agreements in effect at December 31, 1979, \$13,438,077 of the above costs will be recovered in 1980 (\$12,231,670 in 1979).

5. FIXED ASSETS

Depreciation of fixed assets has been provided in the accounts at the following annual rates on a declining balance basis:

Buildings	5% and 10%
General equipment	20%
Automotive equipment	30%

6. BANK INDEBTEDNESS

	1979	1978
Demand bank notes	\$ 8,112,735	\$ 12,834,309
Bankers' acceptances payable at various dates within 22 days after December 31, 1979 (within 30 days after December 31, 1978)	171,345,320	105,332,122
	<u>\$179,458,055</u>	<u>\$108,166,431</u>

Demand bank notes and bankers' acceptances are secured by a general assignment of accounts and notes receivable, by an assignment of insurance on inventories and by a first floating charge on current assets and equipment leased to customers. The loan agreement with the bank contains certain restrictions which, among other things, limit distribution to shareholders as explained in Note 10.

7. CURRENCY TRANSLATION

The accounts payable and accruals include \$2,933,692 (\$6,556,836 in 1978) payable in U.S. funds which has been translated into Canadian dollars using the exchange rate prevailing at the balance sheet date.

8. LONG-TERM DEBT

The long-term debt consists of 9¾% Secured Debentures, 1978 Series, to mature September 1, 1985. They are secured by a Trust Deed which constitutes a first fixed charge on substantially all the real property of the Company and a first floating charge on all other fixed assets. The Company is required to use reasonable efforts to purchase in the market at least \$300,000 principal amount of Debentures in each six-month period ending the last day of February and August in the years 1979 to 1985 inclusive at prices not exceeding the principal amount and in accordance with the terms of the Trust Deed. In addition, these Debentures may be redeemed after February 29, 1984 at the option of the Company.

9. INCOME TAXES

The provision for income taxes is calculated on the basis of current effective tax rates. The provision represents 31.3% (38.5% in 1978) of pre-tax income of \$28,322,272 (\$24,012,091 in 1978) and is net of the federal investment tax credit and the impact of the 3% federal inventory allowance.

Deferred income taxes have resulted from reporting certain items for income tax purposes on bases which differ from the Company's accounting policies.

The deferred income taxes shown as a current liability relate to the following current assets:

(a) Inventories, which include equipment rented to customers on a short-term basis. For accounting purposes, depreciation is recorded on the basis of rentals billed while for income tax purposes maximum allowances are claimed.

(b) Instalment notes, which include conditional sales contracts relating to equipment sales. For accounting purposes, the profit is recognized when the sale is made while for income tax purposes the profit is reported as principal payments are received.

The non-current deferred income taxes relate to equipment leased to customers on which depreciation for accounting purposes is recorded as explained in Note 4. For income tax purposes, maximum allowances are claimed.

10. RESTRICTIONS ON THE DISTRIBUTION OF SHAREHOLDERS' EQUITY

The Trust Deed securing the 9¾% Secured Debentures, 1978 Series, and an agreement with the Company's bank contain restrictions on the declaration and payment of dividends and the reduction of share capital. Under the most restrictive provision, the amount available for these purposes was \$15,885,208 at December 31, 1979 (\$12,782,975 at December 31, 1978).

11. SHARE CAPITAL

The Company is authorized to issue 10,000,000 Common Shares without par value, of which 3,971,400 were outstanding at December 31, 1979. There were no changes in the outstanding share capital during 1979 and 1978.

12. STOCK OPTIONS

Under an employee stock option plan established in 1969, 111,000 Common Shares remain reserved. Options on these shares may be granted at prices not less than 90% of the higher of the last reported sale prices of such shares on the Vancouver Stock Exchange or The Toronto Stock Exchange on the day immediately preceding that on which such options are granted.

13. PENSION PLAN

The Company retains an independent consultant who prepares actuarial reports every two years, the most recent of which was prepared as at December 31, 1977. The consultant has estimated that the funds in the plan were more than adequate to meet the liabilities which existed at December 31, 1977.

Based on actuarial calculations which include a projection of future remuneration, the estimated unfunded past service cost was \$1,056,000 at December 31, 1977. Commencing in 1978, this cost is being funded in equal annual instalments over a period of eight years and is being charged to expense in equal annual instalments according to their nature over periods of two and 14 years.

Pension expense, including contributions to statutory plans, was \$1,416,913 in 1979 (\$1,253,000 in 1978).

14. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate remuneration paid by the Company and its subsidiaries directly or indirectly to the directors and senior officers was \$1,000,983 in 1979 (\$849,095 in 1978).

15. NET INCOME PER SHARE

Net income per share has been calculated on the 3,971,400 Common Shares outstanding during 1979 and 1978.

To the Shareholders, Fanning Tractor & Equipment Company Limited

We have examined the consolidated balance sheets of FINNING TRACTOR & EQUIPMENT COMPANY LIMITED (a British Columbia company) AND SUBSIDIARIES as of December 31, 1979 and 1978, and the related consolidated statements of income and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of the Company and its subsidiaries as of December 31, 1979 and 1978 and the results of their operations and the changes in their financial position for the years then ended in accordance with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.
Chartered Accountants

February 8, 1980
Vancouver, Canada

Review of Operations

Capital expenditures were at an all-time high of \$15.2 million. In the last five years, \$40.8 million has been spent on land, buildings and equipment.



QUESNEL



SASKATOON



SPOKANE



FORT ST. JOHN



MACKENZIE

*Development of new mines and
expansion of current producers led to
large volume earthmoving operations.*



Record Sales in Buoyant Markets



Continued high levels of activity in the forest industry and in oil and gas exploration, an upsurge in construction, and the return to good times for the mining industry resulted in record sales for the Company in 1979.

The year was not without its problems, such as aggressive competition, shortages of some popular machines and a three-months' strike at Caterpillar's U.S. manufacturing plants, but increased sales coverage, a strong merchandising effort and a build-up of inventories in anticipation of labor problems enabled the Company to exceed objectives.

The forest industry enjoyed its third year of record results. Lumber and plywood markets weakened in the last half, reflecting higher mortgage interest rates and a downturn in housing starts, but demand and prices for pulp and newsprint were excellent in both domestic and export sectors. Continuation of the favorable Canadian-United States dollar exchange rate was a significant factor as it was with other export-oriented industries.

CONSTRUCTION SALES CLIMB
The heavy construction market showed a strong increase over 1978, keyed by activity at B.C. Hydro's Revelstoke Dam and the associated highway relocation. Relatively few new grading contracts were called by the provincial highways department but work continued on projects awarded in the previous season—the Coquihalla Pass route, Vancouver Island Highway, the Alaska Highway and the Shakwak, which will link Haines Junction and Alaska through B.C. and the Yukon. Upgrading and double tracking of railway lines in the province were also carried on.

Sales to the mining industry were the best of the last four years. Machines were sold not only for replacement but also for increased production and new development as world prices and demand moved upward. Value of mineral production in B.C. rose 44% to \$2.87 billion with copper the value leader. Coal shipments increased 37 per cent while all other metals and minerals, with the exception of zinc, recorded similar gains.

NEW MINES DEVELOPED

A number of mines prepared for production, including large copper, silver and molybdenum properties as well as several small gold producers.

Some new construction along with maintenance of existing lines resulted in an upturn of sales of pipeline equipment. The 20-mile loop through the Coquihalla Pass near Hope required a large number of machines due to extremely rough terrain and 19 river crossings. The start-up of 83 miles of Westcoast Transmission line from Fort Nelson late in the year as well as an increase in smaller lateral line construction throughout the province were other noteworthy activities. Equipment was needed to replace a section of the Pacific Northern Gas Line damaged during flooding of the Skeena River and to service the Grizzly Valley system in the Peace River country.

In individual operating areas, northernmost branches were particularly strong. Whitehorse showed a dramatic increase in volume. Placer mining operations, which today are on the scale of large earthmoving projects, expanded to take advantage of the skyrocketing price of gold. Estab-

lished lead, zinc and tungsten producers also enjoyed higher metal prices and increased demand.

Dawson Creek and the newly-opened Fort St. John facility worked at capacity to satisfy demands of exploration and development in the "oil patch".

In the centre of the province, Prince George, largest operation outside of Vancouver, experienced a slow year as weather hampered woods operations in the Spring and a decline in U.S. housing starts affected lumber shipments later on.

EXPANSION INTO U.S.

On May 31, 1979, Philpott-Close operations in Washington State were acquired, with sales, parts and service centres in Spokane and Seattle. Late in the year, operations were extended to include Southeast Alaska. This subsidiary operates under the name of Airpro Equipment, Inc. and carries product lines similar to our other air equipment operations.

Two new products, both based on the highly successful Caterpillar hydraulic excavator, were developed and introduced by the Company.

One, marketed under the name of Motrex for "Mobile Track-Mounted Excavator", is a Caterpillar 225 excavator mounted on a rail car chassis. Self-propelled and capable of speeds up to 28 kilometres per hour, the Motrex is ideal for railroad right-of-way maintenance operating either from the rails or, easily dismounted, from anywhere alongside the track. The unique machine has attracted much attention from railroad companies in North America.

The other introduction is a Running Skyline Yards, featured on the front cover of this Report. The Company and Caterpillar participated in the

development of this machine with Lantec Industries Ltd., of Langley, B.C. It is designed for harvesting smaller Interior trees, Coastal second growth and commercial thinning. It differs from traditional yarders, being hydrostatically operated, with inherent advantages in production, performance and training of operators. It is available in two models and is timely in that it enables Interior loggers to meet new ecological standards set by the forest service.

A new JCB product, the 805B hydraulic excavator, was announced at year end and will be marketed in 1980. This machine is smaller than Caterpillar excavators and fills a need in installation of utility services and subdivision work.

Caterpillar continued to improve products throughout the year, notably the smallest tractor, wheel loader and track loader; several series of lift trucks; and a series of direct injection, turbocharged aftercooled diesel engines offering fuel savings.

RENTALS KEY GROWTH

Both domestic and international sales of used equipment remained at a high level. While unit volume increased only slightly over 1978, profits were maintained, even in the face of higher interest rates. Overall, revenues were up significantly with marked growth in rentals, reflecting growing customer acceptance of this type of used equipment financing.

Despite the prolonged strike at Caterpillar, the parts department maintained good customer service through higher than normal inventory levels. Parts sales were up substantially in real terms.

Service departments operated at capacity throughout the year, facing a shortage of trained mechanics at sev-





Caterpillar D4E tractor, with special inside-mounted bulldozer, is ideal size for steep slope logging in the Interior.

This mobile "training school" was outfitted to travel the province and provide specialized training on servicing of Caterpillar truck engines.





eral locations. Field service showed dramatic growth as customers working at full production called for more on-site repairs of equipment rather than in-shop work. An analysis of service operations to determine weak areas of productivity, coupled with a Caterpillar training program on re-use of components, resulted in greater efficiencies on the shop floor.

BEST YEAR EVER

In British Columbia, the Air Products Division had its best year ever. Tank Drill sales to the logging industry and sales and rentals of air compressors and drills to construction markets boomed. A turnaround in demand for Gardner-Denver Air Tracs and compressors, expected in 1978, did materialize in 1979. The Finning Tank Drill, in both pneumatic and hydraulic configurations, maintained its strong position. Tampo compaction equipment was introduced to the heavy construction market.

Airpro Alberta exceeded projected unit sales due largely to the growth of the petroleum-related industries. Sales were strong in Gardner-Denver compressors and JLG and Smith high reach equipment. Increased road construction in the southern part of the province helped sales of drills.

In the United States, Airpro operations in Spokane and Seattle served stable markets with Gardner-Denver, Tampo, and Manlift as primary product lines. Forestry, open pit mining, construction, and aircraft industries are the major markets.

New and improved products, increased sales coverage, and greater customer awareness combined to give the Light Industrial Division higher volume and revenues. Sales of the smaller Caterpillar machines climbed significantly.

The Lift Truck Division achieved satisfactory results in sales, parts and service although profit was not up to expectations. A reason for the lower profit was a major increase in the proportion of leases and rentals which has the effect of deferring revenue and profit.

The re-designed, large capacity V-series trucks, manufactured in Dallas, Oregon and introduced in mid-year, were well accepted by the lumber industry. Sales of electric lift trucks in the 3,000 to 5,000-pound range were excellent.

NEW CANADIAN LINE

The Division took on the new line of Canadian-made Sellick rough terrain lift trucks which will supplement the Caterpillar 900 heavy-duty series.

The Power Products Division finished the year with overall improvement in revenue and profitability. Marine sales were up, truck engines gained a greater market share but industrial engines and electric sets were down. Parts and service sales came in on forecast.

The Division introduced its truck engine training program when a full-time trainer and specially-equipped trailer provided instruction to over 180 mechanics, including Company, TEPS dealer and customer personnel, during its first swing through the province. Training is focused on mid-range and heavy-duty Cat diesel engines and is aimed at improving quality of service.

Sale of Perkins engines and electric sets doubled for the second consecutive year. Marine sales, both for auxiliary and propulsion, and industrial

engines for retro-fitting lift trucks and similar equipment enjoyed strong markets. The Division was named Perkins dealer for Alberta in 1979. Electric sets were in demand in the oil and gas exploration industry and inroads were made in agricultural applications.

LEASES, RENTALS UP

The Company's lease portfolio grew by over 50 per cent. A number of specialized lease programs were developed for several major accounts. Customers recognized the value of our true operating leases with realistic residuals as a lower cost method of financing which frees their capital funds for other purposes. The same principle applied to the rental business which showed a large increase in the value of machines out on rent.

In an effort to meet an urgent need for an increased number of qualified service people, especially in the north, the training department piloted a six-month accelerated upgrading program for mechanics at Dawson Creek. A second session is planned there as well as initial programs in Prince George and Vancouver. Growth in service demand also resulted in expansion of field service training programs.

The B.C. parts apprenticeship program conducted by the Company expanded and enrolment will double under the new 1980-81 contract with the provincial government.

In November, under the provisions of the Combines Investigation Act, the Company was asked for financial records for previous years. These were provided as requested. Other information was supplied in March, 1977.

Capital expenditures for 1979 were at an all-time high. The Company spent \$15.2 million in land, buildings and equipment, compared to the previous record high of \$11.3 million in 1978. In the past five years, \$40.8 million has been invested in property, construction of new facilities, expansion of existing buildings, and installation of tools and equipment.

NEW BRANCHES OPENED

Major facilities were opened in 1979 at Fort St. John and Quesnel while expansions and renovations were completed at Saskatoon, Seattle, Spokane, Mackenzie and Victoria. New sales, parts and service centres were started at Campbell River and Fort Nelson. The Company also purchased land at Port Mann and Chilliwack for future development.

At year-end, negotiations for a new collective agreement between the Company and the International Association of Machinists and Aerospace Workers were still in progress. Final settlement on a two-year contract was reached on February 12, 1980.

The number of employees on December 31 was 2,066, compared to 1,791 in 1978. Total wages, salaries and benefits paid to employees in 1979 was \$55,064,814, as against \$45,007,907 the previous year.



Sales of JCB backhoe loaders accelerated. Of British manufacture, this product has been well accepted by utility contractors and municipalities.



Corporate Information

Directors

WILLIAM T. BARKER
President and General Manager,
Consolidated Equipment &
Supply Co. Ltd.,
Vancouver

H. CLARK BENTALL
Chairman of the Board and
Chief Executive Officer, Dominion
Construction Company Limited,
Vancouver

ROBERT C. BISS*
Executive Vice President,
Fining Tractor & Equipment Company Limited,
Vancouver

JOHN D. FRAZEE*
President and Chief Operating Officer,
Fining Tractor & Equipment Company Limited,
Vancouver

JOHN C. GILMER†
Company Director. Formerly President and
Chief Executive Officer, CP Air,
Vancouver

MICHAEL M. KOERNER
President,
Canada Overseas Investments Limited,
Toronto

THOMAS E. LADNER, Q.C.†
Partner, Ladner Downs,
Vancouver

RICHARD E. LANE†
Retired. Formerly President and
Chief Operating Officer,
Fining Tractor & Equipment Company Limited,
Vancouver

VINOD K. SOOD*
Executive Vice President,
Fining Tractor & Equipment Company Limited,
Vancouver

W. MAURICE YOUNG*
Chairman of the Board and Chief
Executive Officer,
Fining Tractor & Equipment Company Limited,
Vancouver

Officers

W. MAURICE YOUNG
Chairman of the Board and
Chief Executive Officer

JOHN D. FRAZEE
President and
Chief Operating Officer

ROBERT C. BISS
Executive Vice President

VINOD K. SOOD
Executive Vice President

W. F. (JERRY) HOLMES
Vice President Marketing

DONALD W. LORD
Vice President Branch Operations

RONALD W. PARK
Secretary

Operations, Division and Staff Managers

J. J. Blunt, Prince George Sales

J. A. Carthy, Power Products

C. A. Cederberg, Kamloops

D. L. Christie, Administration

R. W. Claridge, Lift Truck

P. Clarke, Pipeline Sales

G. M. Correale, Vernon

B. I. Davis, Vancouver Service

J. D. Desimone, Prince George

D. R. George, Branch Used Equipment

C. A. Harris, Data Processing

A. E. Holden, Light Industrial

E. G. Inglis, Training

G. E. Johnson, Dawson Creek

R. M. Kaye, Vancouver

G. F. Kiss, General Service

R. C. Ley, Advertising & Public Relations

C. C. Loyst, Personnel

H. H. Lunow, Purchasing

B. A. McDowell, Cranbrook

J. J. Malden, Terrace

W. F. Merrell, Accounting

B. M. Moore, General Parts

T. R. Motteler, Product Support Sales

J. J. Mulvaney, Used Equipment
Administration

L. E. Norlander, Audit & Tax

J. A. Powell, Sparwood

R. J. Sangster, Financial Services

R. S. Scott, Finance

J. F. Shepard, Williams Lake

T. A. Shorter, Used Equipment

P. G. von der Porten, Vancouver Parts

R. G. Williamson, Air Products

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Solicitors

Ladner Downs,
Barristers and Solicitors,
Vancouver, Canada

Registrar and Transfer Agent

Canada Permanent Trust Company,
Vancouver, Calgary, Winnipeg,
Toronto and Montreal, Canada

Stock Exchanges

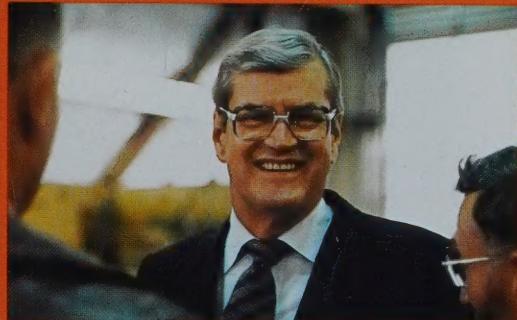
Vancouver Stock Exchange
The Toronto Stock Exchange

*Member, Executive Committee

†Member, Audit Committee

Company Directors

The Board of Directors attended the opening of the new Fort St. John facility coincident with their quarterly meeting in October.



W. M. YOUNG



H. C. BENTALL



R. E. LANE



T. E. LADNER, Q.C.



J. C. GILMER



V. K. SOOD



R. C. BISS



M. M. KOERNER

W. T. BARKER

FINNING

 YOUR CATERPILLAR DEALER

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